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ABSTRACT

Although 1997 saw many states enact tax cuts affecting families, 1997 cannot be characterized as a significant year for state tax relief for "poor" families. However, some states did make changes that will help the poor. These changes include: enactment of earned income tax credits (EITC) in two states (Massachusetts and Oregon), income tax changes in six states (Arizona, Louisiana, Maine, Massachusetts, Nebraska, and Wisconsin), sales tax changes in four states (Louisiana, Missouri, North Carolina, and New York), property tax changes in four states (Indiana, Minnesota, New York, and Texas), and dependent care deductions in three states (Massachusetts, Michigan, and Oregon). These provisions, as they affect the poor, are discussed in this Brief. (RJM)

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STATE FISCAL BRIEF

Center for the Study of the States
Nelson A. Rockefeller Institute of Government

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No. 46

State Taxes and the Family – An Update

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HIGHLIGHTS

- Nearly 36 percent of all single-parent families fall below the poverty line, compared with 12 percent of all families.
- Although about half the states increased their income tax thresholds in 1996, six states levied income taxes on families with incomes at half the poverty line.
- Property tax relief remains a common form of tax relief, though most programs have not changed materially since the mid-1980s.
- Massachusetts and Oregon added earned income tax credits (EITC) in 1997, bringing the total to nine states.
- States did not change their major tax provisions sufficiently to compensate for inflation in 1997.

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OVERVIEW

This *Fiscal Brief* updates *State Tax Relief for the Poor*, a June 1996 *Fiscal Brief*, which summarized some of the highlights of the book *State Tax Relief for the Poor*, written by David S. Liebschutz, associate director of the Center for the Study of the States and the late Steven D. Gold, the former director of the Center.[1] Both the *Fiscal Brief* and the book explore the policies that states can adopt to provide tax relief for the poor. This *Fiscal Brief* will focus especially on poor families.

Although 1997 saw many states enact tax cuts affecting families, 1997 cannot be characterized as a significant year for state tax relief for *poor* families. However, some states did make changes that will help the poor. These changes include: enactment of earned income tax credits (EITC) in two states, income tax changes in seven states, sales tax changes in four states, property tax changes in four states, and dependent care deductions in three states. These provisions, as they affect the poor, will be discussed further in this *Brief*.

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FAMILY DEMOGRAPHICS

Before dealing with the issue of tax policy, it is important to consider for a moment what is meant by a "family," as this definition often influences the effect of tax provisions on individuals. In 1996, there were about 101 million households in the United States. Just over half of these households or about 54 million were "traditional" families, that is, a married couple with or without children. In addition, nearly 17 million family households were headed by a single parent (12.8 million by women and 3.8 million by men) with the remaining 30 million households composed of individuals living alone or unrelated individuals living together.[2]

In addition to looking at overall family structure, it is also important to examine the incidence of poverty among families. The poverty line for a family of four in 1996 was approximately $16,021.[3] According to that standard, about 14 percent of the population in the United States was poor in 1996. The poverty rate rose sharply during the recessions of the early 1980s and early 1990s and, despite declining since 1993, it is still higher than it was throughout the 1970s. However, the incidence of poverty has changed in the past 25 years, with increased poverty among children and low-wage workers and a decrease among senior citizens. Poverty among single-parent households, particularly those headed by women, continues to be much higher than the population at large with nearly 36 percent falling below the poverty line (compared to 12 percent of all families). Table 1 gives some summary statistics on poverty rates in 1973 and 1996. 1973 was chosen because it was the first year that both male and female head of household poverty statistics were made available by the Census, while 1996 is the most recent year for such statistics.

There are several reasons why states might be concerned about tax policy and poor families. First, states and localities impose substantial tax burdens on low-income families and individuals. In most states, state and local taxes take a much larger share of income from low-income families than from families with higher incomes. A 1995 study by the Citizens for Tax Justice showed that, on average, those with the lowest income paid nearly 12.5 percent of their incomes in state and local taxes, while those in the higher income brackets paid under 8 percent.[4] Furthermore, most of this disparity can be found because sales and property taxes tend to be highly regressive at the lower end of the income scale.

Second, inflation has eroded the value of many provisions that are intended to relieve taxes for low-income families and individuals. For example, many states substantially increased their personal exemptions or credits in 1987 as a result of federal tax reform, but they have

Table 1
Family Demographics, 1996 and 1973

1996 (000s) Type of Family	total	% of total	above poverty line	% above poverty line	under poverty line	% below poverty line
total	70,241	100.0	62,533	89.0	7,708	11.0
married-couple	53,604	76.3	50,594	94.4	3,010	5.6
female HH	12,790	18.2	8,623	67.4	4,167	32.6
male HH	3,847	5.5	3,316	86.2	531	13.8
Persons						
total	266,218	100.0	229,689	86.3	36,529	13.7
under 18	70,650	26.5	56,027	79.3	14,623	20.7
over 65	31,877	12.0	28,449	89.2	3,428	10.8
1973 (000s) Type of Family	**total**	**% of total**	**above poverty line**	**% above poverty line**	**under poverty line**	**% below poverty line**
total	55,053	100.0	50,225	91.2	4,828	8.8
married-couple	46,812	85.0	44,330	94.7	2,482	5.3
female HH	6,804	12.4	4,611	67.8	2,193	32.2
male HH	1,438	2.6	1,284	89.3	154	10.7
Persons						
total	207,621	100.0	184,648	88.9	22,973	11.1
under 18	66,959	32.3	57,317	85.6	9,642	14.4
over 65	20,605	9.9	17,251	83.7	3,354	16.3

Source: Poverty in the United States: 1996, Census Bureau, Tables C-1, C-2, and C-3.

failed to change them since then to keep pace with inflation.[5] There were no changes in these head of household provisions in 1997.

Third, the New Federalism, especially the conversion of welfare into a block grant makes state tax relief for the poor a more attractive option, since states no longer have an incentive to spend more of their own funds to attract federal matching dollars. Under the new Temporary Assistance to Needy Families (TANF) program, where states receive a flat amount per year, it will now be relatively more expensive for states to provide assistance to the poor through grants than through tax relief. It is early to tell the extent to which states will opt for tax relief.

Table 2 shows the frequency of five major tax relief programs for the poor in each of the states. All but three states[6] provide at least one of these programs to their needy populations, and six of the states[7] provide at least four of the six programs listed. The most common provisions are to give preferential tax treatment to individuals filing as the head of a household (in 34 states) and to offer a property tax circuitbreaker (in 28 states), while the least common is a comprehensive tax relief program, found only in New Mexico.

Framework for Evaluating Relief

In order to properly evaluate tax relief for the poor, it is important to establish some criteria to do so. The following nine desirable features of tax relief provisions are elaborated on in the book *State Tax Relief for the Poor*.

1. The budgetary cost of the relief should be reasonable.
2. All or most of the benefits should go to the intended beneficiaries.
3. Among beneficiaries, the benefits should be distributed appropriately.
4. All people who meet the criteria should be given at least some benefits.
5. The difference in benefits between those in the program and those who barely fail to qualify for it should not be large.
6. Undesirable incentive effects, such as discouraging work effort or saving, should be minimized. If possible, tax systems should provide positive incentives.
7. The relief should not be very expensive to administer.
8. The provisions should not be so complicated that many intended beneficiaries are discouraged from claiming benefits.
9. The cost of providing the relief should be borne by the state government, who are more able to bear the burden than local governments.

Trade-offs exist among some of the features while other features tend to reinforce each other. For example, keeping the cost of relief reasonable is consistent with the goal of concentrating the relief on the poor, but these objectives may lead to "notch" effects,[8] undesirable incentive effects, and complexities. While the trade-offs deserve consideration, they are likely to be less serious in formulating state tax relief than they might be at the federal level in devising an income maintenance program because the amounts of money involved are likely to be considerably smaller.

Income Tax Relief

Of the states with income tax, the number of states requiring families with incomes at or below the poverty line to pay income tax was 23 in 1996.[9] Furthermore, in six states, families of four with income less than half of the poverty line had to pay at least some income tax, compared with seven states in 1995.

Five major alternatives for relieving income taxes of low-income households are:

1. increasing the personal exemption or personal credit;
2. providing a targeted credit that phases out as income rises;
3. providing an earned income tax credit;
4. establishing or increasing a minimum standard deduction; and
5. setting an income threshold below which taxpayers are exempt from the income tax.

Personal exemption or personal credit -- A personal exemption is a fixed amount per person subtracted from income (possibly along with other subtractions) in determining taxable income. A personal credit is a fixed amount subtracted from the gross tax liability to determine net tax liability. In many states (and for the federal income tax until 1987), senior citizens and blind persons are allowed an additional personal exemption or credit. Every state, except Pennsylvania, provides either a personal exemption or a personal credit. The difference between an exemption and a credit is that an exemption is subtracted from adjusted gross income as part of the process of calculating taxable income, while a credit is subtracted from the gross tax payment as part of the calculation of the net tax payment. The value of a credit is the same for all taxpayers, but the tax savings that result from an exemption depends on the tax rate. Since tax rates normally are higher for high-income households, an exemption lowers their tax liability more than it reduces tax payments for middle-income taxpayers.

Deductions -- Itemized deductions are expenditures that may be subtracted from adjusted gross income as part of the calculation of taxable income. At the federal level (as well as in most states), deductions fall into six categories — medical expenses, interest payments, state and local taxes, charitable contributions, casualty and theft losses, and miscellaneous deductions. Taxpayers have a choice between itemizing deductions and taking the standard deduction. Itemized deductions are of little concern to the poor at the federal level because most low-income households claim the standard deduction since it normally exceeds their total itemized deductions. That is not as true at the state level. A standard deduction is sometimes referred to as a low-income allowance or is structured as a zero bracket amount.

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Table 2
Major State Tax Relief Provisions, Tax Year 1997
(See Key on Page 5.)

	Earned Income Credit	Other Credits Related to Income*	Head of Household Provisions**	Circuitbreaker***	Property Tax Deferral	Comprehensive Tax Relief	Number of Provisions in each State	Income Tax Threshold (1996) (b)
Total State Provisions	9	19	34	28	22	1		($)
New England								
Connecticut			PE	E,H&R			2	24,100
Maine			TR	AA,H&R;E,H&R	X		3	15,200
Massachusetts	X	I			X		3	15,500
New Hampshire					X		1	n/a
Rhode Island	X		TR,PE	E,H&R			3	23,700
Vermont	X		TR,PE	AA,H&R			3	23,700
Mid Atlantic								
Delaware			PE				1	12,500
Maryland	X	I	SD	AA,H&R	X		5	22,300
New Jersey							0	7,500
New York	X	I	TR,SD	AA,H&R			4	21,600
Pennsylvania		I		E,H&R			2	15,300
Great Lakes								
Illinois			PE	E,H&R	X		3	4,000
Indiana		(c)					1	4,000
Michigan			PE	AA,H&R	X		3	9,600
Ohio		I					1	11,500
Wisconsin	X	I	SD	AA,H&R	X		5	16,700
Plains								
Iowa	X		PE,SD	E,H&R	X		4	16,400
Kansas		S	PE	AA,H&R			3	13,000
Minnesota	X		PE	AA,H&R	X		4	20,900
Missouri			PE	E,H&R			2	10,000
Nebraska			TR,PC				1	16,900
North Dakota			TR,SD	E,H&R	X		3	17,400
South Dakota		S		E,H	X		3	n/a
Southeast								
Alabama			PE				1	4,600
Arkansas			PC	E,H			2	10,700
Florida					X		1	n/a
Georgia		S,I	TR		X		3	11,100
Kentucky		I	PC				2	5,000
Louisiana			SD				1	12,300
Mississippi			PE,SD				1	15,900
North Carolina		I	PE				2	17,000
South Carolina							0	16,900
Tennessee				E,H	X		2	n/a
Virginia					X		1	8,200
West Virginia			PE	E,H&R			2	10,000
Southwest								
Arizona		I	TR,PE,SD	E,H			3	20,000
New Mexico		S	TR,PE	E,H&R		X	4	16,900
Oklahoma		S	TR,PE	E,H			3	11,800
Texas					X		1	n/a
Rocky Mountain								
Colorado			PE	E,H&R	X		3	16,900
Idaho		S	PE	E,H			3	16,900
Montana			SD	E,H&R			2	8,600
Utah			TR	E,H&R	X		3	14,400
Wyoming		S			X		2	n/a
Far West								
Alaska							0	n/a
California			TR,SD	E,H&R	X		3	23,400
Hawaii (a)		S	TR,PE,SD				2	6,100
Nevada				E,H&R			1	n/a
Oregon	X		TR,SD		X		3	11,400
Washington					X		1	n/a

Threshold Amount -- The personal exemptions and standard deductions effectively exempt households below some low level of income from taxes, but some states go further by setting a higher arbitrary threshold below which taxpayers are exempt. This provision has no counterpart in the federal income tax. There are at least three ways of doing this:

1. require that the state income tax cannot reduce after-tax income below a certain level (e.g., Iowa sets it at $16,400 for a family of four);
2. set a threshold that a married couple or head of household (or surviving spouse) need not pay any tax if adjusted gross income is below a certain amount (e.g., New York sets it at $21,600); and
3. provide that no state return need be filed if no federal return is required (which means, in practice, that for married couples there is a threshold based on the sum of the federal standard deduction and two personal exemptions, or about $11,800 in 1996).

These provisions raise two issues. First, some states establish such low thresholds that they are of no benefit to a large proportion of the poor. Second, all of them have the "notch" effect. When income rises above the threshold level, state tax liability may increase from zero to a substantial amount. It should be noted that the example does not assume the use of the earned income tax credit, which would reduce or eliminate the notch problem.

Create a Targeted Credit That Phases Out as Income Rises -- A highly efficient way of relieving tax on the poor is with a credit that phases out as income rises. Such credits may be either restricted to low-income households or extended to include moderate-income households as well. Numerous states have targeted credits that are meant to serve as compensation for the property tax, sales tax, or other taxes paid by the poor, even though they are claimed as part of the income tax and do not actually depend on a particular household's sales or property tax liability. These credits will be discussed below, although they are similar in their effects to an ordinary income tax credit.

Earned Income Tax Credit -- The earned income tax credit (EITC) is one of the most attractive state tax options for the poor, and the number of states offering it has expanded from one in 1986 to nine in 1997. The EITC, which gives low- and moderate-income working families and individuals a credit against their state and federal income taxes, is attractive to states because it adds to the work incentive for welfare recipients and other low-income workers. In addition, it is well-targeted, and it is easy for states to administer by piggybacking on the federal credit.

All of the state credits are based on a percentage of the federal EITC,[10] though there are slight differences in some of the features among states. For example, all of the credits use a different percentage of the federal credit to set their benefit level, ranging from 5 percent in Oregon to 50 percent in Maryland. In addition, six of the nine programs provide refundable credits. A refundable credit allows those with no tax liability to get a check from the state for the credit.

Only Wisconsin gives any consideration to family size beyond the allowance already built into the federal credit.[11] The Wisconsin program gives 4 percent of the federal credit for families with one child, 14 percent for families with two children, and 43 percent for families with three or more children. Thus, using the 1996 federal credit as a base, a Wisconsin single-parent family with three children earning $11,000 annually would be entitled to the maximum federal credit of $3,556 as well as a $1,529 state credit. This $5,085 would move the family from well below the poverty line to just above it.

All states use at least one of these alternatives: all but one of the 41 states that have state income taxes have a personal exemption or credit; 18 states have targeted tax credits; 9 states have earned income tax credits; 33 states allow some type of standard deduction; and 18 states set income tax thresholds above the poverty line.

Policies differ considerably in terms of how much revenue they cost, how well they target relief to low income taxpayers, whether they cover all or only some of the poor, and whether they incorporate a smooth transition between those who are eligible and those who are not covered.

NOTES AND SOURCES FOR TABLE 2

Notes:

Blanks indicate no state program.
n/a = not applicable
* I = income tax credit, S = sales tax credit
** TR = tax rate preference PE = personal exemption preference PC = personal credit preference SD = standard deduction preference
*** AA = all ages; E = elderly only; H = homeowners only; H&R = homeowners and renters
(a) = Hawaii's current sales tax credit does not technically relate to income only the number of exemptions.
(b) = The threshold is for a family of four. The poverty line for such a family was $16,021 in 1996.
(c) = Indiana enacted an earned income deduction for families in 1997, but it is not based on the federal EITC.

Sources:

State Tax Statutes
State Tax Guide, Commerce Clearinghouse.
Center on Budget and Policy Priorities, *State Income Tax Burdens on Low-Income Families in 1996*.

PROPERTY TAXES AND THE FAMILY

In 1997, four states, Indiana, Minnesota, New York and Texas, enacted property tax legislation that would increase the homestead exemption or enact a homestead credit. Changes in Indiana and New York will begin to take effect in 1998.

The property tax is the heaviest tax imposed by state or local governments on the poor. Although it is primarily a tax levied by local governments, states have a critical role in relieving the property tax because local tax systems

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generally are created by state law. Most property tax relief programs are also financed by state taxes.

The most efficient way of relieving the property tax paid by the poor is through a circuitbreaker -- a state-financed property tax credit where benefits are phased out as income increases. Renters are usually covered along with homeowners, with a certain proportion of rent being treated as a property tax payment. Twenty-eight states have such credits, but only nine extend eligibility to non-senior citizens. Circuitbreakers are always refundable if they exceed income tax liability, and many are not administered with the income tax at all. (A refundable credit provides a direct payment if its value is greater than the amount of income tax owed.)

Other property tax relief mechanisms include renter deductions and credits, and deferral programs. Some of these programs are restricted to persons with relatively low incomes, but others are not.

Sales Tax and the Family

Sales tax changes in 1997 were enacted in four states. Louisiana, Missouri, and North Carolina cut taxes on food, while New York enacted a sales tax exemption for clothing under $100, beginning in December 1999.

The sales tax is perhaps the most regressive, commonly assessed tax. According to the Citizens for Tax Justice Study cited earlier, in 1995, non-elderly married couples in the lowest 20 percent of income paid nearly seven percent of their income in sales and excise taxes, while those in the top one percent of income paid only about one percent. Unfortunately, given the nature of the sales tax - a "flat" tax on anyone who purchases goods and services - it is difficult to make them generally more progressive per se. Exempting necessity items such as food, clothing, and medicine, makes the tax less onerous on low and middle-income individuals, however, they still pay proportionately more in these kinds of taxes than wealthier individuals.

However, eight states have refundable credits to relieve the regressivity of the sales tax. Four cover all age groups; two are restricted to senior citizens and disabled persons; and two cover senior citizens, the disabled, and families with dependent children under the age of 18. Two of these states have no income tax, and one other state administers the refund program separately from its income tax. Several of these programs vary benefits according to the size of a household, although none of the programs provides a large benefit and most phase out at fairly low income levels.[12]

Special Adjustments for Families

Because children represent nearly 40 percent of the poor, how they are treated by tax relief provisions merits special attention. Families with children are disadvantaged by two features of some, but not all, tax relief mechanisms: some provisions make no allowance for the size of a household, so large families do not receive greater benefits than small households; and some provisions treat one-parent households that include children the same as single individuals, even though special treatment is provided to two-parent households. From the standpoint of poor children, for example, it is important that 34 states allow some "head of household" preference that is relatively close to that afforded joint returns.

Dependent Care Credits and Deductions -- In 1997, three states, Massachusetts, Michigan and Oregon, added dependent care deductions, bringing the nationwide total to twenty-five states. Most of these credits are tied to the federal dependent care credit, but at least six states have credits that are targeted more to low-income households. Two of these six states have refundable credits, which are of considerably greater value to low-income workers than the typical credit that is not refundable if its value exceeds income tax liability.

Head of Household Adjustment -- The federal income tax provides four types of filing units, with each subject to different tax rates and having different standard deductions: single, married filing jointly, married filing separately, and head of household. A head of household return is for a single person who has at least one dependent (usually either a child or a parent supported by the taxpayer). Some states mimic the federal definitions of the filing unit, but numerous states have an additional status—a combined return for married couples, with each spouse taxed separately as though he or she were single.

An issue of some importance for the large number of poor families headed by single parents is how tax relief programs treat single-parent working households. Some relief programs provide the same benefits to them as to single households, while others treat them the same as married couples. Recognizing that their expenses are similar to those of two-parent families, the Tax Reform Act of 1986 gave such head of household filers a considerably greater increase in the standard deduction than that for other filing statuses, bringing them close to, but still lower than, the deduction for joint returns.

State head of household provisions have not changed since last year. These provisions include tax rate preferences, personal exemption preferences, personal credit preferences and standard deduction preferences.

Administration of Tax Relief

An important shortcoming of many tax relief programs is that a large number of eligible persons do not participate in them. To the extent that this pattern persists, it implies that tax relief does not cost a state as much as it would if participation were universal among eligible households. Intensified publicity programs can help alleviate this problem.

SUMMARY OF 1997 CHANGES

Table 3 shows that in 1997 many states enacted tax cuts affecting families. Given the large increase in state revenues caused by a healthy economy, state legislatures were in a position to enact many tax cuts that would help families. However, most of the tax relief will benefit middle and upper income tax payers in the form of income

Table 3

Tax Legislation Affecting the Poor in 1997

State	Type of Change	Details	Effective Date
		Income tax Changes	
Arizona	lowered tax rate and increased personal exemption	increased personal exemption by $2100 (to $6300) for married couple filing jointly with at least one dependent; rates cut	12/31/96
Louisiana	tied to federal schedule	tied minimum tax to the federal schedule; state tax threshold for filing and paying taxes raised to same level as federal income tax ; cost $1.2M/yr	1/1/99
Maine	personal exemption increased	increased exemption $50 from $2100 to $2150 ($3M/yr)	11/1/97
Massachusetts	personal exemption increased	18% increase in exemptions (expected to cost $81M for tax year 1997)	tax year 1997
Nebraska	personal exemption increased; rates cut	rate cut of 3.5%; $10 increase in personal exemption credit; full deductibility of health insurance premiums paid by self-insured individuals; cost of $127M in tax yrs 97&98, can be made permanent	tax years 1997 & 1998
Wisconsin	working families tax credit	income taxes are eliminated for joint filers with taxable income below $18,000 (below $9,000 for single filers); phased back in between $18,000 and $19,000 (between $9,000 and $10,000 for single filers); cost $25.3M/yr	tax year 1998
		Earned Income Tax Credits and Deductions	
Indiana	Earned Income Tax Deduction	deduction for working parents with income less than $12,000/yr (97-00); increased in the per-child deduction from $1,000 to $1,500 (97-00)	1997-2000
Massachusetts	Earned Income Tax Credit	10% of federal credit ($29M/yr)	tax year 1997
Oregon	Earned Income Tax Credit	5% of federal credit	tax year 1997
		Sales Tax Changes	
Louisiana	cut sales tax on food	did not renew 1% sales surtax on food and utilities (tax falls back to 3%) ($110M/yr)	7/1/97
Missouri	cut sales tax on food	sales tax on food is reduced from 4.225% to 1.225%	10/1/1997
New York	instituted sales tax exemption for clothing	new sales tax exemption for clothing worth under $100; local governments have the option to adopt a local exemption for clothing	12/1/99
North Carolina	cut sales tax on food	cut state sales tax on food from 3% to 2%	7/1/98
		Property Tax Changes	
Indiana	increased homestead credits	increased from 4% to 10% (98-01)	1998-01
Minnesota	Omnibus tax bill (income, sales, PT relief)	$500M one-time rebate (all homeowners & renters to get 20% rebate of tax paid in 1997); $158M/yr for homestead credit for homeowner; reduction in all homestead rates ($758M bill)	tax year 1997
New York	property tax relief	established state homestead exemption for seniors by an average of $50,000, and by $30,000 for all other homeowners, phased in over 4 years	1998-99 school year
Texas	increased homestead exemption, freezes school taxes for those over 65	approved by voters on Aug 9, homestead exemption for public school taxes will increase from $5k to $15k with state reimbursing school districts $1B	8/25/97
		Dependent Care Deductions and Credits	
Massachusetts	increased child deduction	doubled dependent child deduction from $600 to $1200 for families with kids under 12 ($15M/yr)	tax year 1997
Michigan	established child care exemption	allowed families with incomes under $100K to deduct up to $5,000 per child for child care expenses	9/23/97
Oregon	established child care credit	established child care credit equal to 40% of child care costs for low income families, phased out for families at twice the poverty level; cost $34M for 97-99 biennet	tax year 1997

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tax rate cuts and not those at the bottom of the economic ladder. In a recent paper, the Center on Budget and Policies Priorities argues that, in fact, these recent cuts are making the tax system less progressive. They say that tax increases, during the early 1990s, were made mostly in regressive taxes such as sales and excise taxes, but that the tax cuts of recent years have been mostly in the progressive income tax which do not offset the regressivity of the other taxes for the poor.

Conclusions

States have developed a large number of methods to relieve the taxes of the poor. Despite the many programs that exist, the tax burden of households in poverty remains considerable in all states. State-local taxes claim more than ten percent of income from the poor, and in some cases, considerably more than that. States concerned about providing tax relief for the poor have many options.

Although the federal government largely eliminated the income tax burden on the poor in 1986, the state-local tax burden on the poor -- including not just income tax but also property, sales, and other taxes -- is so much greater than the pre-reform federal income tax burden that eliminating it is a much bigger task. States have made considerable progress since 1986 in reducing income tax burdens on the poor, but relatively little has been done with regard to other taxes. In fact, since the burdens of sales and property taxes are far higher than that of the state income tax (and those taxes have increased considerably since 1986), the overall state-local tax burden on the poor is more onerous than it was in 1986.

About the Authors and the Center for the Study of the States

David S. Liebschutz is the associate director of the Center. Michelle Naples was a research assistant at the Center during 1997. The Center is part of the Nelson A. Rockefeller Institute of Government, the public policy research arm of the State University of New York. Established in May 1990, the Center is a leading authority on developments in state finances and programs.

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Endnotes

1. The book, which has much more detailed analysis of particular state programs, can be obtained by calling the Center for the Study of the States.
2. All of these statistics came from *Poverty in the United States: 1996* (P60-198), United States Bureau of the Census.
3. Ibid, p. A-4.
4. *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, Citizens for Tax Justice, June 1996.
5. This resulted in a real decline of the value of the exemption of nearly 32 percent between 1987 and 1995.
6. Alaska, New Jersey, South Carolina.
7. Iowa, Maryland, Minnesota, New Mexico, New York, Wisconsin.
8. That is, where this is a steep increase in the amount of taxes paid when one is just above the income limitations of the tax programs.
9. While much of this *State Fiscal Brief* focuses on 1997 changes, threshold statistics are currently only available for 1996.
10. The maximum federal EITC in 1997 for individuals was $332 which began to phase out at $5,450 and was totally eliminated at $9,770. The maximum credit for families with one child was $2,210 which began to phase out at $11,950 and was totally eliminated at $25,760. The maximum credit for families with two children was $3,656 which began to phase out at $11,950 and was totally eliminated at $29,290.
11. The Wisconsin program does not have a credit for individuals.
12. For example, for a family of four, Kansas gives a maximum refund of $130 (for those with incomes under $5,000) declining to $65 before phasing out totally at $13,000.

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